

ED/2015/8, *IFRS Practice Statement: Application of Materiality*
response to exposure drafts

24 February 2016

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As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/16024 SC0224

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
Submitted electronically to www.ifrs.org
February 2016

Dear IASB secretariat

Exposure Draft

IASB ED/2015/8, *IFRS Practice Statement: Application of Materiality*

CIPFA is pleased to present its comments on the matters discussed in this exposure draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General Comments

While CIPFA has an interest in financial reporting generally, we have a specific interest in both public sector and wider not-for-profit reporting. We therefore have a particular interest in issues which would affect the use of IASB standards by these entities

We agree with the view of the IASB that the problems in respect of over-disclosure in IFRS financial reporting lie primarily in the way in which the body of IASB standards are being applied, rather than faults in the underlying standards. The Disclosure Project has identified some ways in which improvements in the articulation of standards will be beneficial, but in the area of materiality the main focus is on providing guidance on application.

CIPFA agrees with the examples based approach and with the focus on users to inform consideration of materiality. The primary users considered by the IASB are existing and potential investors, lenders and other creditors; this reflects a different view to that taken by the International Public Sector Accounting Standards Board (IPSASB) in developing its conceptual framework for general purpose financial reporting by public sector entities. Nevertheless, we consider that the discussion in the Practice Statement is helpful; it may help public sector entities reporting under IFRS and will also provide a reference for consideration of these issues under IPSASs.

Responses to the Questions for Respondents

Responses to selected questions in ED/2015/8 are attached in an annex to this letter.

If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t: +44(0)20 7543 5794).

I hope this helps the Board in its development of the Practice Statement and other work in its project on Disclosure.

Yours faithfully

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Responses to Questions in the Invitation To Comment

Question 1—Form of the guidance

A Practice Statement is not a Standard. The IASB’s reasoning for issuing guidance on applying the concept of materiality in the financial statements in the form of a non-mandatory Practice Statement is set out in paragraphs BC10–BC15.

(a) Do you think that the guidance should be issued as non-mandatory guidance? Why or why not?

(b) Do you think that a Practice Statement is the appropriate form for non-mandatory guidance on applying the concept of materiality? Why or why not? If not, what alternative(s) do you propose and why?

CIPFA agrees with the Board’s proposal to provide non-mandatory guidance on the application of IFRS standards.

In our view this gives the right emphasis – as a formal IASB pronouncement the guidance needs to be considered seriously, but the non-mandatory nature of this and other Practice Statements helps reinforce the point that the examples do not need to be followed rigidly.

CIPFA agrees that it is helpful to have the material in a practice statement which has been through full due process and which is included in the IFRS handbook, rather than e.g. educational material.

Question 2—Illustrative examples

Do you find the examples helpful in the [draft] Practice Statement? Do you think any additional practical examples should be included? If so, what scenarios should the examples address? Please be as specific as possible and explain why those example(s) would be helpful to entities.

The examples are helpful.

Question 3—Content of the [draft] Practice Statement

The [draft] Practice Statement proposes guidance in three main areas:

- (a) characteristics of materiality;**
- (b) how to apply the concept of materiality in practice when presenting and disclosing information in the financial statements; and**
- (c) how to assess whether omissions and misstatements of information are material to the financial statements.**

It also contains a short section on applying materiality when applying recognition and measurement requirements. Please comment on the following and provide any suggestions you have for improving the [draft] Practice Statement:

- (a) Do you think that any additional content should be included in the Practice Statement? If so, what additional content should be included and why?**
- (b) Do you think the guidance will be understandable by, and helpful to, preparers of financial statements who have a reasonable level of business/accounting knowledge and IFRS? If not, which paragraphs/sections are unclear or unhelpful and why?**
- (c) Are there any paragraphs/sections with which you do not agree? If so, which paragraphs/sections are they and why?**
- (d) Do you think any paragraphs/sections are unnecessary? If so, which paragraphs/sections are they and why?**
- (e) Do you think any aspects of the guidance will conflict with any legal requirements related to materiality within your jurisdiction, or a jurisdiction in which you file financial statements?**

(a) No

(b) In our view, the guidance will be understandable by, and helpful to, preparers of financial statements who have a reasonable level of business/accounting knowledge and IFRS.

We have no observations to make on points (c),(d),(e).

Question 4—Timing

The IASB plans to issue the Practice Statement before the finalisation of its Principles of Disclosure project.

The IASB has tentatively decided to include a discussion on the definition of materiality, and whether there is a need to change or clarify that definition within IFRS, in the Discussion Paper for its Principles of Disclosure project (expected to be issued early in 2016). Nevertheless, the IASB thinks that to address the need for guidance on the application of materiality, it is useful to develop the Practice Statement now.

The IASB does not envisage that the discussion about the definition of materiality or any other topics in its Principles of Disclosure project will significantly affect the content of the Practice Statement. Nevertheless, the IASB will consider whether any consequential amendments to the Practice Statement are necessary following the completion of the Principles of Disclosure project. Do you agree with this approach?

CIPFA agrees with this approach.

Question 5—Any other comments

Do you have any other comments on the [draft] Practice Statement? As mentioned in Question 4, a discussion about the definition of materiality will be included in the Discussion Paper in the Principles of Disclosure project, so the IASB is not asking for comments on the definition at this time.

No.